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LEAN AND MEAN:
1991 HUMAN RESOURCE COSTS SURVEY

- Human Resource Budgets
- Employee Benefits
- Maintaining The Work Force

A Survey Sponsored by

THE Olsten CORPORATION

The Olsten Forum on Human Resource Issues and Trends
Westbury, New York

Employee Health Costs Keep Rising

A majority of North American companies, hit with another round of double-digit increases in the cost of employee health care over the past year, are forced to pass the increases on to their employees. In addition, more than seven out of ten employers responding to a recent survey increased their budgets for this benefit.

These findings come from a survey of members of The Olsten Forum on Human Resource Issues and Trends, a panel of North American human resource executives representing companies ranging in size from the Fortune 1000 to small businesses. A total of 597 companies participated in the Olsten Forum survey, sponsored by The Olsten Corporation.

The survey, conducted in February of 1991, finds that three out of five companies had increases in their employee health plan exceeding 10 percent over the past year. Four out every five companies now share the cost of health insurance with employees, and almost half increased the level of employee co-payments over the past year. In most cases, this amounts to up to a quarter of the cost of the monthly premium for a single person, or no more than $50 a month that the employee is asked to pay.

Almost three-quarters of the respondents report that their percentage of payroll spent for health insurance has increased over last year. One-fifth report that more than 15 percent of payroll goes to health insurance, while another one-fifth spend 11 to 15 percent.

"Companies are caught between two seemingly opposing forces -- the rising cost of benefits on one hand, and the need to maintain attractive benefits to compete for talent on the other," says Stuart Olsten, President and Chief Operating Officer of The Olsten Corporation. "We still see a strong commitment to offering good benefits, but gone are the days when the company is expected to pay for everything."

WORK FORCES STABLE, BUT DOWNSIZING WIDESPREAD

The survey also explores actions being taken to manage payroll costs. While a majority of the companies surveyed report that the size of their work force has increased or remained the same, two out of five downsized over the past year. The primary reason for work force reductions was a downturn in business.

Measures to control the cost of maintaining the work force are varied. The most prevalent measures are reductions in overtime, layoffs, and hiring freezes. One-fifth of the respondents increased their use of temporary and contract employees.

Administrative/clerical positions were hit hardest among those companies reporting decreases in the sizes of their work forces, followed by professional/technical positions, and middle management.

The effect on the remaining staff is critical in a company that has undergone a reorganization. As reported by Olsten Forum panelist Marianne Moisan, Human

Resources Administrator for Quantronix in Smithtown, New York, "We have all learned to go one step beyond our capabilities, creating higher levels of innovation, creativity, and motivation."

For some organizations, operating with low overhead is the normal way of doing business. "We've always been 'lean and mean.' It has paid off in these times," says James J. Boylan, SPHR, Second Vice President of Human Resources for Empire Insurance Company, based in New York City. "We've subscribed to a policy of giving people plenty to do, with daily challenges. Management picks up a pencil and pitches in to do the work."

The need to increase productivity is very much on the minds of corporate managers. "Our company is working much more closely with temporary services to improve retention, placement, and to deal with seasonal fluctuations," says William F. May, Director, Human Resources for Warren Industries, Inc., Racine, Wisconsin.

The net result is the proactive stance that human resource departments must take. "In marketing and sales, the credo is "you must spend money to *make* money." In human resources in the 1990s, it's "you must spend money to *save* money," says A.J. Hutson, Vice President-Human Resources for Blue Cross & Blue Shield United of Wisconsin. "HR dollars invested in educating employees to be better health care consumers and in practicing healthy lifestyles will save money in the long run. The same is true for investing in better recruiting and selection, cutting-edge incentive programs to attract and retain good employees and training/education programs that permit employees to invest in themselves. Targeted spending -- not cutbacks -- will separate the outstanding employers from the rest."

RESPONDENTS TO THIS SURVEY

A total of 597 companies responded to this survey, covering a range of sizes and industry types. The breakdown is as follows:

BY COMPANY EMPLOYEE SIZE

1-100 employees	16%
101-1,000 employees	51%
1,001-10,000 employees	28%
10,000+ employees	5%

BY ANNUAL REVENUES

Less than $50 million	39%
$50 million - $100 million	18%
$100 million - $500 million	30%
More than $500 million	13%

BY INDUSTRY GROUP

Manufacturing/construction	30%
Services *(business services, consulting, health care, etc.)*	20%
Banking/finance	13%
Public/nonprofit *(government, education, associations, etc.)*	10%
Insurance	8%
Retail/wholesale	8%
Utilities/transportation/communication	5%
Other	6%

Human Resource Budgets

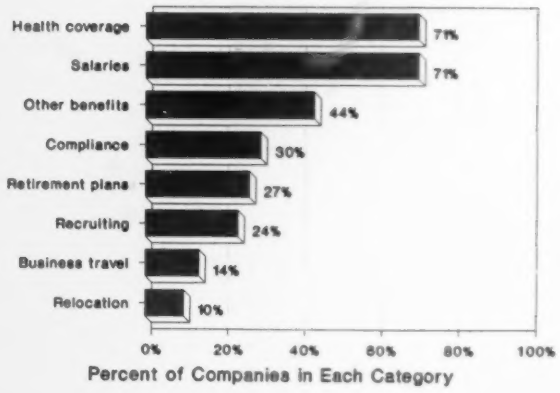
Human resource budgets have been spared the budget ax, even among most companies that have downsized their work forces.

Over the past year, almost two-fifths (39 percent) of the companies surveyed have increased their human resource budget, and a like amount (38 percent) indicate no change. About a fifth (22 percent) say that their budget has decreased.

The survey also measured the impact of work force reductions on human resource budgets. Of those companies reporting decreases in their work forces, more than half (52 percent) say that their human resource budget either increased or was not affected. Among those companies expanding their staff, 92 percent say that their budget has increased or remained the same.

Half of the public/nonprofit-sector organizations participating in the survey registered increases in their human resource budgets. This was followed by insurance, services, and utilities, each with 42 percent. Thirty-seven percent of retail organizations showed such increases. The banking and manufacturing sector was more conservative, with a little over a third (34 percent) showing increases.

WHERE HR BUDGETS HAVE INCREASED



Larger companies showed the greatest inclination toward increasing their human resource budgets. More than two-fifths (42 percent) of the largest corporations *(10,000 or more employees)* report increases, compared with 14 percent of the small companies *(100 employees or less).*

Two areas have seen the greatest budget increases over the past year -- salaries and employee health insurance.

Salaries and health insurance, the cornerstone of most employee compensation and benefits plans, are the two areas where more than seven out of ten companies increased their budgets over the past year. Less than half of the respondents increased their budgets for other employee benefits (such as savings plans or employee assistance). Slightly under a third report that their budgets for compliance with federal and local legislation had increased.

Employee Benefits

In a large majority of companies, the basic benefits package remains intact, neither expanding nor declining. There is a notable commitment to education and training.

Over the past year, the employee benefit receiving the greatest company support has been education and training, with more than two out of five companies increasing their funding in this area.

The greatest reductions took place in the area of bonuses, with 23 percent of the companies having reduced or eliminated bonuses. Employee social functions and perks also saw declines.

ACTION ON SELECTED BENEFITS OVER PAST YEAR

	Increased	*No Action*	*Reduced*	*Eliminated*
Education/training	41%	41%	13%	1%
Employee retirement plan	27%	61%	7%	1%
Employee social functions	22%	52%	18%	2%
Bonuses	21%	50%	19%	4%
Employee savings plans	15%	75%	3%	1%
Relocation benefits	10%	79%	3%	2%
Vacation pay	8%	87%	2%	0%
Perks *(automobiles, etc.)*	7%	67%	15%	4%

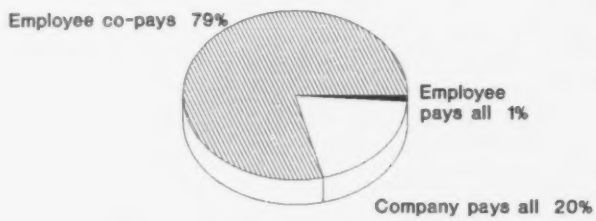
(Totals do not equal 100% because some companies did not respond or do not offer the above benefits.)

Most companies saw double-digit increases in the cost of employee health insurance, and most now ask employees to share the cost of monthly premiums.

Thirty-eight percent report that the cost of their premiums increased by 10 to 20 percent over the past year. One-fifth (23 percent) put the increase at more than 20 percent.

In addition, almost three-quarters (72 percent) say that the percentage of payroll spent for health insurance increased over the past year. Two-fifths of the participants estimate that more than 10 percent of payroll goes to health insurance.

WHO PAYS FOR HEALTH INSURANCE?

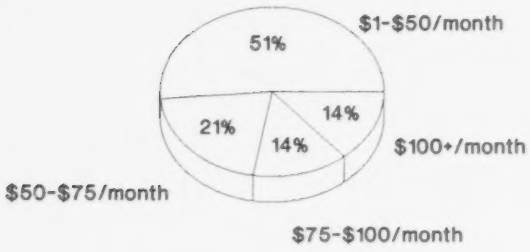


Percent of Companies Responding

Almost four out of five of the companies surveyed share the cost of their health insurance with their employees, compared with 20 percent who bear

the full cost. In only a small handful of cases (one percent) are employees expected to pick up the entire tab.

EMPLOYEE CONTRIBUTIONS FOR CO-PAY HEALTH PLANS



Percent of Companies in Each Range

The public and nonprofit sector is most generous with health coverage, with 36 percent of these organizations paying the full cost. More than one-fifth (22 percent) of retail organizations will pay the full costs, along with 20 percent of service businesses.

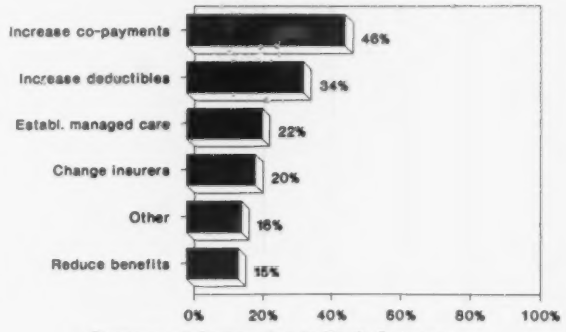
Most employees are asked to pay no more than a quarter of their monthly health insurance premiums, which comes out to less than $50.

In terms of dollars paid per month, a majority of those employees who co-pay contribute no more than $50 a month. More than a third contribute between $50 and $100 monthly, and 14 percent contribute more than $100.

This equates to almost seven out of ten (68 percent) paying up to one-quarter of the total monthly premium. Another three out of ten (28 percent) pay between one-quarter and one-half of the monthly premium.

Although most health plans have some cost-control features, many employees were still asked to contribute more.

ACTIONS TO CONTROL HEALTH CARE COSTS



Percent of Companies in Each Category

Almost three-quarters (73 percent) of the respondents have plans requiring preadmission reviews. Another 70 percent require a second opinion for surgery, and 57 percent require utilization reviews. Just under half of the companies surveyed (45 percent) have a health maintenance organization (HMO) plan, and 40 percent use a preferred provider organization (PPO).

Over the past year, many companies took action to cut their insurance premium costs by

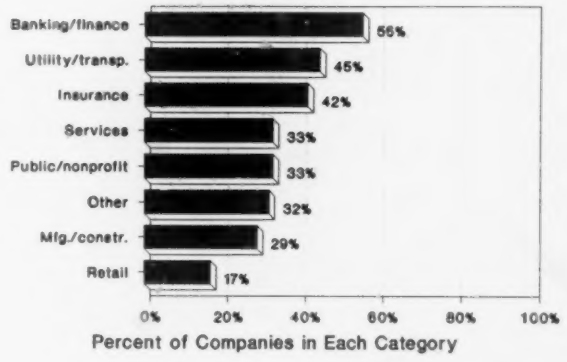
passing it on to employees through higher co-payments. This was the method of choice for close to half (46 percent) of the companies surveyed. Slightly over a third (34 percent) increased the level of deductibles.

The feelings of many panelists were echoed by Freddie J. Baragona, Jr., Director of Human Resources for T.L. James & Company, Inc., in Ruston, Louisiana. "Any future health care cost increases will be borne 100 percent by participants," he says. "The company cannot afford to increase its portion, which presently covers approximately 63 percent of total premium costs."

Flexible benefits plans, where employees may select from a menu of benefits, have a firm foothold in North American companies. Other innovative plans -- including educating employees about benefits and incentives -- are being tested.

Over a third (35 percent) of the companies surveyed have a flexible-benefits plan, which provides employees with a flexible spending account to "purchase" selected benefits. Another 13 percent have such a plan under consideration. A quarter of those with such plans indicated that the plan has reduced benefits costs.

FLEXIBLE BENEFITS PLANS - BY INDUSTRY



Flexible benefits plans are most popular in the banking and finance industry, where a majority of firms have embraced the concept. These types of plans are also strong in the utility, transportation, and communication sector.

Building employee awareness of the value of their benefits is also a key part of cost-control strategy for many companies. C. Kay Guhlin, Director of Personnel for Zapata Gulf Marine Corporation in Houston, Texas reports that efforts are being made to develop employee awareness of how to use their benefits (such as health insurance and savings plans) in the most cost-effective manner.

Another panelist, the Vice President of Human Resources for a midwestern manufacturer, adds that, "We are educating employees that the cost of benefits is part of their compensation. Also, we are trying to get employees to be better consumers of their health care."

Of course, there's nothing like monetary incentives. "For controlling benefits costs, we have introduced a Healthy Lifestyle Discount," says Stan Archer, Vice President of Compensation and Benefits for Southwestern Life in Dallas, Texas. "Employees receive

a $15-per-month reduction in their contribution costs if they (1) do not smoke; (2) have not smoked in 90 days; and (3) have weight within guidelines. It has been very positively received, and 60 percent of our employees have qualified for this discount."

Other cost-containment measures for benefits include:

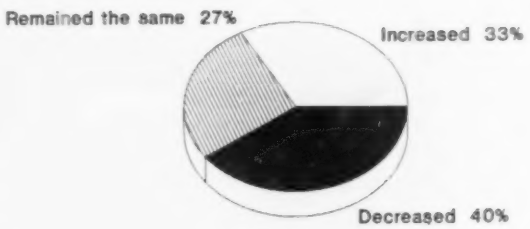
- Self-funded employee health plans.
- Establishment of an employer's health care co-op -- "an HMO of employers, not doctors or hospitals."
- Limitations on coverage for spouses.
- Maintaining continuous contract negotiations with insurers.
- Increasing safety training to keep workers compensation costs down.
- Keeping relocation costs low by hiring personnel that do not require relocation.

Some panelists commented on the need to keep health care plan providers competitive. "Provider indifference to spiraling costs is causing a groundswell of animosity toward them," says the Vice President, Administrative Services for a western utility. "Government controls will soon be sought -- or demanded by business, as we seem unable to effectuate changes on our own."

Still, many businesses are keeping their health care plans on a competitive footing. Richard L. Barron, Vice President Human Resources of Landmark Savings in Pittsburgh, Pennsylvania, says that his firm conducts yearly re-bidding of benefits plans to "keep pressure on carriers to prove rate changes."

Maintaining The Work Force

WORK FORCE SIZE



Percent of Companies Responding

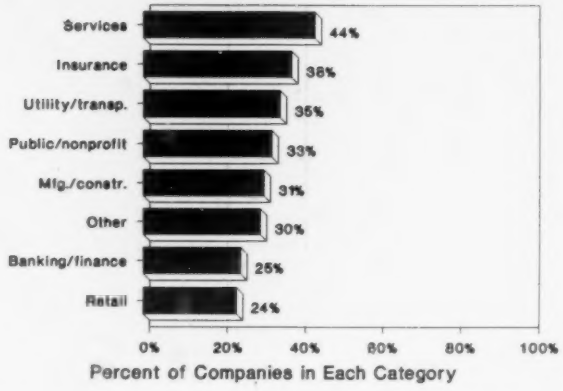
Despite economic pressures, many companies did not downsize last year, and a number even expanded their work forces. However, certain regions and industries fared much better than others. And, most of the expansion took place in smaller companies.

One-third of the companies surveyed report that the size of their work force increased, while slightly more than a quarter say it remained about the same. Four out of ten report a decrease.

Regionally, the south central U.S. *(including Texas, Oklahoma, Louisiana, and Arkansas)* had the best year, with more

than half (52 percent) of the companies in this area expanding the sizes of their work forces. The midwest *(stretching from the Great Plains states to Ohio Valley)* followed with 42 percent of its companies growing, and western states saw a 38 percent expansion. A quarter (25 percent) of companies in the southeast saw expansion. The northeast section *(Virginia to Maine)* fared the worst, with only a 24 percent growth in work force sizes.

WORK FORCE INCREASES - BY INDUSTRY



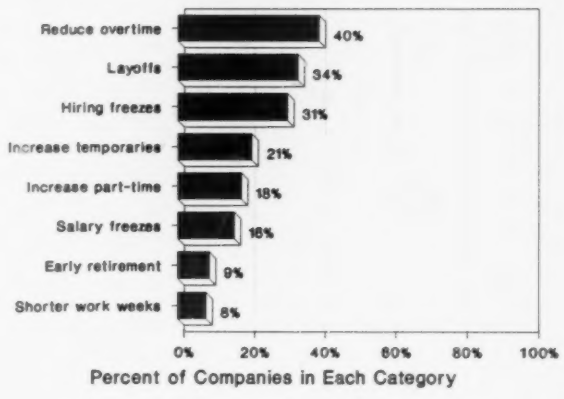
Among the industry categories, the greatest work force increases were experienced in the services sector, with more than two-fifths reporting increases. This was followed by insurance companies, as well as organizations in the utilities, transportation, and communications sector.

Most of the growth over the past year has taken place within smaller companies. The smallest firms in the survey *(fewer than 100 employees)* fared best, with 37 percent reporting growth in their work forces. Half of the largest companies *(10,000 or more employees)* experienced decreases, compared to 23 percent who report increases.

The most commonly implemented methods of managing payroll costs include reducing overtime, layoffs, and hiring freezes. Over the past year, clerical and administrative staff felt the brunt of downsizings.

Measures to control payroll costs are varied. The largest number of employers report reductions in overtime. Slightly more than a third have had layoffs over the past year, and three out of ten report hiring freezes. More than one-fifth of the respondents increased their use of temporary and contract employees to control the size of their work forces.

METHODS FOR CONTROLLING PAYROLL



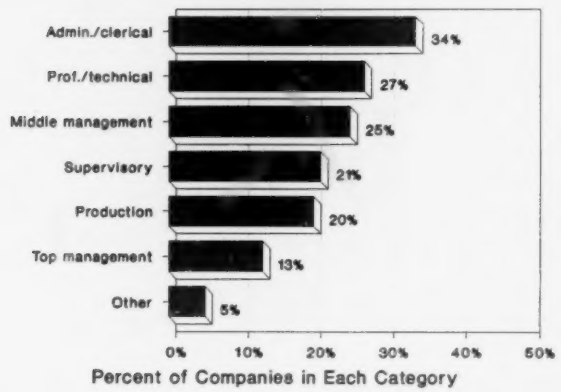
Layoffs were most common in the retail industry, with close to half (46 percent) of these firms reporting such actions. Manufacturers were hit almost

as hard (44 percent), followed by banking/finance firms (30 percent) and insurance (27 percent).

Many panelists agree that this is not the time to cut back on training and development. "We have downsized our company by 25 percent from a year ago," reports Raymond L. Noas, Vice President and Director of Human Resources of Financial Federal Savings & Loan Association in Miami Lakes, Florida. "Our productivity levels have increased and we continue to invest in our employees' continued education and development through tuition reimbursement and ongoing training programs."

Administrative/clerical employees were the group most likely to be laid off over the past year, as indicated by more than a third of the companies. Almost three out of ten report that professional/technical positions were impacted by cutbacks, along one-quarter scaling back on middle management.

EMPLOYEE LEVELS IMPACTED BY CUTS



"We are looking to have more clerical personnel cross-trained in all facets of each worker's job so they are able to fill in where needed if cuts are made," says Rosemary A. Woren, Administrator for Grabush, Newman & Company in Baltimore, Maryland. "Also, automation has had a tremendous impact on the way we do business -- tasks take less time to perform with computers."

The primary reason for work force reductions was a downturn in business, as reported by 28 percent of the respondents. Another 18 percent cite reorganizations as the reason for downsizing.

Turnover management, productivity improvement, quality efforts, incentive systems, employee involvement and education, and job re-design/cross-training are cited as positive approaches to managing human resource costs.

Turnover: The previous Olsten Forum survey found that regardless of economic conditions, turnover remains a problem at many companies. Almost three-quarters (74 percent) of companies responding to the survey report that their level of turnover had increased or remained the same. The urgency of reducing turnover is summed up by Diane Allen, Vice President of Human Resources for The Hibbert Group in Trenton, New Jersey. "Controlling costs involve reducing turnover, because it is very expensive to recruit and train new employees," she says. "We are putting a great emphasis on training and development and quality. We want to make employees feel that they are a part of our goals and objectives."

Productivity: Many companies are shifting their resources to reduce reporting layers and develop a stronger responsiveness to the market. "Productivity increases are our focus at this time," says John Hillert, Director of Organization Development and Employee Relations for Sentry Insurance in Stevens Point, Wisconsin. "We have already restructured the organization and focused our attention on specific markets, so now work flow and productivity are the next front."

"We have implemented a formal productivity system, a continuous quality-improvement program and case management system," says Myrtle S. McDowell, Vice President-Human Resources for St. Mary's Regional Medical Center in Reno, Nevada. "We are looking at self-directed work teams after having flattened the organization by eliminating four levels of management."

Quality: Quality improvement is a major priority for most companies. This is confirmed by another recent survey by The Olsten Corporation, which finds that seven out of ten companies have some type of quality effort underway. "We have increased efficiency of our operations by reorganizing our systems, instituting quality control measures, and better training," says Batia Sharon, Vice President of Operations and Human Resources for Threshold Enterprises, Ltd., in Scotts Valley, California. "This has resulted in hiring fewer people that we would have to hire otherwise, due to the increases in productivity."

Incentive systems: Companies are looking at or introducing pay-for-performance programs as a means to control payroll. "We're looking at ways to better manage wages and salaries," says the Vice President and Controller for a Pennsylvania-based engineering group. "In particular, we're trying to tie in wages into individual performance."

"Wage incentives are based on job performance objectives," says Scott Reighard, Manager of Human Resources for Acorn Press, Inc., in Lancaster, Pennsylvania. "Gone are the days of cost-of-living adjustments and increases to keep an individual."

Employee involvement and education: This is a concept that was mentioned frequently as an approach to increasing corporate performance. "We are carefully evaluating the changing needs of our employee population in relation to budget restraints," says Stephen P. Jakab, Associate Provost at Fairfield University, Fairfield, Connecticut. "We are trying to engage employees in more participative management and control costs by making them more educated consumers."

Job re-design and cross-training. Some companies encourage employees to develop multiple specialties. "To reduce staffing costs, we have created jobs which are more generalist positions," says Carmel A. Johnson, Employment Representative/Recruiter for First Capital Life Insurance Company in San Diego, California. "In taking away the specialization of jobs, employees are able to perform more functions and fewer staff is needed. Company automation has also cut down staffing."

THE OLSTEN CORPORATION

The Olsten Corporation, one of the leading providers of temporary personnel in North America, is celebrating 41 years of service in 1991. Serving a base of over 100,000 client accounts, the corporation, under its trade names Olsten Temporary Services, Olsten Health Care Services, and Olsten Permanent Placement Services, maintains a network of more than 750 owned, franchised, and licensed offices located in all 50 states, the District of Columbia, Canada, and Puerto Rico. Together, these offices employ over 335,000 temporary workers annually for business, industry, government, health care facilities, and home health care markets.

Many of its clients, including the vast majority of the *Fortune* 1000 companies, require temporary help with specialized skills. Olsten meets these needs with nine distinct service divisions: office services, office automation, professional accounting, light industrial, legal support, records management, technical services, marketing support, and health care. Permanent placement services are provided in select markets as well for the following areas: accounting, finance, sales/marketing, data processing, and office services.

The Olsten Corporation [AMEX: OLS] is headquartered in Westbury, New York.

THE OLSTEN FORUM ON HUMAN RESOURCE ISSUES AND TRENDS

The Olsten Forum on Human Resource Issues and Trends is a national panel of human resource executives formed to monitor the new challenges facing today's organizations. The panel consists of Vice Presidents and Directors of Human Resources for companies ranging in size from *Fortune* 1000 companies to small businesses.

Topics to be covered in future reports include the following: educating and training the work force, staffing strategies, work and family issues, and new work schedules.

The survey series is conducted for The Olsten Corporation by Joseph McKendrick of The Center for Workplace Issues & Trends, based in Horsham, Pennsylvania. If your company is interested in participating in The Olsten Forum, contact The Olsten Forum, P.O. Box 510, Horsham, PA 19044.

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